

## Message Text

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ORIGIN TRSE-00

INFO OCT-01 NEA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 SS-15 STR-04 OMB-01 CEA-01 L-03 CIAE-00 INR-07

PRS-01 /063 R

DRAFTED BY TREAS/OMEA/TWAHL/JNEWMAN:CJR

APPROVED BY EB/CSB/OSB:EKLAWSON

NEA/EGY:GBROWN

TREAS:GPASKY

S/S -FVORTIZ

E:RPOATS INFO

----- 114629

R 052325Z JAN 76

FM SECSTATE WASHDC

TO AMEMBASSY CAIRO

C O N F I D E N T I A L STATE 001917

E.O. 11652: GDS

TAGS: EINV, USEGJC, EG US

SUBJECT: GOODYEAR INVESTMENT PROJECT

REF: A. CAIRO 12593, B. STATE 271045, C. CAIRO 12906

WE REPEAT CABLE OF DEC. 24, THE TRANSMISSION OF WHICH WE  
ARE UNABLE TO CONFIRM:

1. GOODYEAR REP PURCELL CALLED DEC. 12 TO DEBRIEF TREAS.  
ON OUTCOME OF RECENT DISCUSSIONS IN CAIRO OVER TIRE  
PROJECT. HE WAS CAUTIOUSLY OPTIMISTIC THAT GOE WILL  
APPROVE PROJECT AND STRESSED COMPANY'S VIEW THAT JWG  
EFFORTS HAS BEEN EXTREMELY USEFUL. GOODYEAR REPS FOUND  
OVERALL ATTITUDE OF GOE OFFICIALS HAD IMPROVED CONSIDER-  
ABLY AND INDICATED THEY WERE ABLE ON LAST VISIT TO HAVE  
ENTREE TO HIGH-LEVEL OFFICIALS WHICH THEY HAD PREVIOUSLY  
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NOT SEEN. THEY FEEL GOE WILL ACCEPT GOODYEAR REQUIREMENT

FOR 50 PERCENT EQUITY AND AS TRADE-OFF COMPANY HAS

AGREED TO INCREASE TOTAL VALUE OF EQUITY IN THE INVESTMENT. THEY UNDERSTOOD QUESTION OF FOREIGN EXCHANGE AVAILABILITY NOW IN HANDS OF EL-GHANDOUR.

2. PURCELL EMPHASIZED AGAIN THAT COMPANY WANTS GOE APPROVAL OF PRINCIPLE THAT FOREIGN EXCHANGE WILL BE AVAILABLE TO MEET ENTIRE COST OF RAW MATERIAL IMPORTS NO MATTER WHAT LEVEL WILL BE. COMPANY FEELS THIS REASONABLE SAFEGUARD AGAINST OPERATING CUTBACKS OR SHUTDOWN OF PLANT DUE TO RAW MATERIAL SHORTAGES, AND WITHOUT SUCH ASSURANCE RISK OF INVESTMENT IN EGYPT WOULD BE TOO HIGH.

3. GOODYEAR REPS INDICATE THAT GOE OFFICIALS WITH WHOM THEY HAD BEEN DISCUSSING PROJECT WERE AWARE OF APPROXIMATE TOTAL FOREIGN EXCHANGE GUARANTEE BEING SOUGHT, AND THIS HAD BEEN STIPULATED IN SEVERAL PRESENTATIONS TO GOE. P.M. SALEM'S UNDERSTANDING THAT FIGURE WAS IN FACT LARGER (REF A PARA 8) IS EVIDENCE OF THIS FACT. GOODYEAR REPS POINT OUT THAT ESTIMATE OF 18.8 MILLION DOLS TOTAL WAS BASED ON QUANTITY AND PRICE CALCULATIONS MADE AT POINT IN TIME AND IS SUBJECT TO CHANGE AS WORLD PRICES CHANGE. THUS EVEN IF 25 PERCENT EXPORT TARGET (NOTED REF C) INDICATES LOWER NET FOREIGN EXCHANGE

REQUIREMENT, IT IS OUR UNDERSTANDING THESE REMAIN ESTIMATES AND GOODYEAR WOULD STILL WANT BE ABLE OBTAIN ALL FOREIGN EXCHANGE THAT WOULD PROVE NECESSARY TO PERMIT OPTIMAL CAPACITY UTILIZATION, AN OBJECTIVE WE ASSUME GOE WOULD SHARE.

4. WE SHARE EMBASSY'S CONCERN AT MISUNDERSTANDING WHICH AROSE FROM EMPHASIS IN GOODYEAR'S PRESENTATIONS ON REQUEST FOR DOLS 7 MILLION AT THE OFFICIAL RATE. OUR NOTES OF JWG MEETING INDICATE THAT GOE INVESTMENT AUTHORITY OFFICIAL OUTLINING SALIENT FEATURES OF PROPOSAL STATED CORRECTLY THAT GOODYEAR WAS SEEKING 7 MILLION DOLS GUARANTEE AT OFFICIAL RATE OF EXCHANGE BUT DID NOT INDICATE WHETHER HE WAS AWARE THAT TOTAL FOREIGN EXCHANGE

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GUARANTEE BEING SOUGHT BY GOODYEAR WAS MUCH LARGER. U.S. SIDE DID NOT CONFIRM OR EXPAND ON GOE PRESENTATION OF THIS POINT. IN LIGHT OF SUBSEQUENT CONFUSION ON ISSUE, IT CLEARLY WOULD HAVE BEEN USEFUL IF DISCUSSION IN JWG HAD BROUGHT OUT GOODYEAR'S POSITION FULLY, AND IN PARTICULAR IF U.S. SIDE HAD MADE SURE THAT EGYPTIAN SIDE WAS AWARE THAT DOLS 7 MILLION WAS NOT TOTAL REQUIREMENT.

5. FOR THE RECORD IT SHOULD BE NOTED THAT SUMMARY OF GOODYEAR PROPOSAL GIVEN IN ITEM 5 OF REF B DID INDICATE THAT DOLS 7 MILLION REPRESENTED ONLY A PORTION OF

TOTAL RAW MATERIAL NEEDS. SUMMARY NOTED THAT GOODYEAR WAS REQUESTING "THE FREE AVAILABILITY OF FOREIGN EXCHANGE TO COVER RAW MATERIAL REQUIREMENTS OF WHICH 7 MILLION DOLS MUST BE AT THE OFFICIAL RATE OF EXCHANGE."

6. PURCELL IN CONVERSATION DEC. 16 INDICATED THAT GOE AND GOODYEAR ARE EXPLORING POSSIBILITY OF A GUARANTEE FOR THE ENTIRE FOREIGN EXCHANGE REQUIREMENT AT PARALLEL RATE. EL-GHANDOUR ALSO TOLD PARSKY IN PARIS THAT HE HAD BEEN INSTRUCTED TO STUDY CAREFULLY THE ECONOMICS OF THE GOODYEAR INVESTMENT PROPOSAL AND PLANT OPERATIONS. THIS HAS BEEN CONFIRMED BY PURCELL WHO SAID HE HAS EXPLAINED TO EGYPTIANS THAT DEPRECIATION CHARGES FOR EXPENSIVE PLANT EQUIPMENT WILL RESULT IN RELATIVELY HIGH TOTAL COSTS FOR FIRST FEW YEARS OF OPERATIONS BUT THAT PLANT WILL THEN BECOME INTERNATIONALLY COMPETITIVE AS EVIDENCED BY GOODYEAR REQUEST FOR SIGNIFICANT TARIFF PROTECTION ONLY FOR INITIAL PERIOD.

7. GOODYEAR HAS NOW SENT LETTER TO MININD COMPARING COSTS OF GOODYEAR'S U.K. PLANT WITH ESTIMATED COSTS OF PROPOSED EGYPTIAN PLANT. COMPANIES WERE SENT SHAFEL, ABDEL FATTAH, MAREI AND A. KHODARY. LETTER PROVIDES DATA ON TOTAL AND UNIT COSTS IN EGYPTIAN POUNDS, BY CATEGORY, OR U.K. AND EGYPTIAN PLANTS, USING BOTH OFFICIAL AND PARALLEL MARKET EXCHANGE RATES. RELEVANT UNIT COST DATA ARE GROUPED AS FOLLOWS:

.....(LE THOUSANDS PER 100 KILOS OUTPUT)

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.....	EGYPT	.....	EGYPT	.....
.....	U.K.	.....	3 YR.	.....
.....	OFFICIAL.	OFFICIAL...	PARALLEL.	OFFICIAL....
.....	RATE	.....	RATE	.....
.....	(\$2.58)..	(\$2.58)....	(\$1.70)..	(\$2.58).....

RAW				
MATERIALS	.3345	.3654	.5546	.3566

LABOR,				
SALARIES,				
OVERHEAD	.2653	.1933	.2348	.1763

SUB-TOTAL

## "PRODUCTION

COST"	.5998	.5587	.7894	.5329
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DEPRECIATION	.0250	.0623	.0874	.0459
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.....	EGYPT	.....	EGYPT
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.....	U.K.	... 3 YR.	..... 5TH YR.
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.....	OFFICIAL	OFFICIAL	PARALLEL	OFFICIAL
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.....	RATE	RATE	RATE	RATE
-------	------	------	------	------

.....	(\$2.58)	(\$2.58)	(\$1.70)	(\$2.58)
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ORGANIZATION	0	.0085	.0109	0
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AND MISC.

EXPENDITURES,

TRAINING

DUTIES, FREIGHT, 0	.1071	.1591	.1022
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INSURANCE ETC.

ON RAW MATE-

RIALS

TOTAL COST	.6247	.7366	1.0468	.6810
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(VARIABLE AND FIXED)

(TOTALS MAY NOT ADD DUE TO ROUNDING.)

8. EMBASSY WILL NOTE THAT DEPRECIATION CHARGE IN 3RD

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YEAR MORE THAN DOUBLE PRESENT CHARGE IN U.K. PLANT

SINCE MUCH OF LATTER HAS ALREADY BEEN WRITTEN-OFF.

ALSO, ALMOST ALL MATERIAL INPUTS TO U.K. PLANT ARE

OBTAINED DOMESTICALLY AND THUS THERE ARE NO DUTIES OR

FREIGHT, ETC. EVEN ADDING THIS ENTRY AND DEPRECIATION

TO "PRODUCTION COST", DATA SHOW UNIT COST OF EGYPTIAN

PLANT IN FIFTH YEAR LESS THAN 10 PERCENT ABOVE

U.K. PLANT. KISSINGER

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NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FOREIGN INVESTMENT, BUSINESS FIRMS, JOINT VENTURES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 05 JAN 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976STATE001917  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** CJR  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D760003-0290  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760185/aaaacyag.tel  
**Line Count:** 209  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ORIGIN TRSE  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 CAIRO 12593, 76 STATE 271045, 76 CAIRO 12906  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** CunninFX  
**Review Comment:** n/a  
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**Review Date:** 12 APR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
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**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**Subject:** GOODYEAR INVESTMENT PROJECT  
**TAGS:** EINV, EG, US, GOODYEAR  
**To:** CAIRO  
**Type:** TE  
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